

Retail Equity Research

Tata Consultancy Services

IT Services

BSE CODE: 532540 NSE CODE: TCS
Bloomberg CODE: TCS:IN SENSEX: 38,506

HOLD

12M Investment period Rating as per Large Cap
CMP Rs 2,037 TARGET Rs 2,132 RETURN 5%
(Closing: 15-10-19) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Q2 numbers fall short of Street expectations

Tata Consultancy Services (TCS) provides a comprehensive range of IT services globally. The company serves clients across diverse industries, including finance and banking, insurance, telecommunication, transportation, retail, manufacturing, pharmaceutical and utilities.

- Q2FY20 revenue rose 5.8%/2.1% YoY/QoQ to Rs. 38,977cr. (constant currency growth at +8.4% YoY) The growth was led by Digital revenue (+27.9% YoY) representing 33.2% of the total revenue. Revenues were below our and street expectations (-5% vs. our estimate and -1% vs. consensus).
- EBIT margin was down ~250bps YoY to 24.0% due to higher employee expenses in Q2FY20 and cross-currency headwinds.
- PAT grew 1.8% YoY to Rs. 8,042cr, missing the Street expectations by 3.2% on account of weak revenue growth and strong hiring.
- We retain our 'HOLD' rating on the stock with a revised target price of Rs. 2,132 based on ~21x FY21E EPS.

Topline growth disappointing

The company recorded a revenue growth of 8.4% YoY in constant currency terms, primarily driven by 16.0% YoY growth in Life Sciences & Healthcare (contributing 8.1% of revenue) and 9.3% YoY growth in Regional Markets & Others (20.6% of revenue). BFSI and Retail verticals continued to be under pressure and recorded 8.0% and 4.8% YoY growth respectively in constant currency terms. Geographically, growth was led by UK (+13.3% YoY) and Continental Europe (+16.0% YoY). Digital revenues continue to be the major growth driver for TCS contributing ~33.2% of the topline. The management expects 2H20 demand to be weak, but expects a strong demand environment over medium to long-term period. We believe TCS is unlikely to register double digit growth in FY20 on account of the challenges in BFSI and Retail segments.

Order book solid but margins shrink

The company signed an order book of USD 6.4bn for the quarter, which marks the highest in the last 6 quarters. The deal size and tenure continued to expand with 3 new clients in the USD 100mn-plus band. The company expects to maintain a book-to-bill ratio in the range of 1.1x-1.2x. Despite a robust order book, EBIT margins were down ~250bps owing to significant employee additions, higher subcontracting costs and currency volatility in Q2FY20.

Key concall highlights

- The company added 14,097 associates in the quarter, taking the total employees on board to 450,738.
- TCS and General Motors have established a strategic partnership for future global vehicle design and development.
- The company declared an interim dividend of Rs. 5 per share along with a special dividend of Rs. 40 per share, in-line with company policy to return 80-100% of free cash flows to shareholders.
- The company does not see any direct impact from the corporate tax cut.

Valuation

TCS has a strong order book and consistent track record of execution, but we remain cautious over its near term outlook due to its performance miss in 1H and continued weakness in its core verticals like BFSI and Retail, where clients are in a wait and watch mode. We cut our earnings estimates by ~9.6%/7.0% for FY20E/FY21E and value TCS at ~21x FY21E EPS and retain our HOLD rating with a target price of Rs. 2,132.

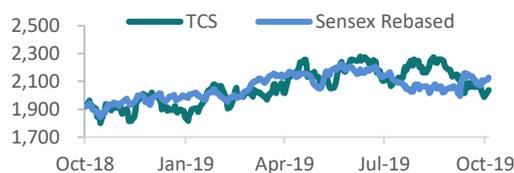
Company Data

Market Cap (cr)	Rs. 764,572
Enterprise Value (cr)	Rs. 753,648
Outstanding Shares (cr)	375.3
Free Float	26.0%
Dividend Yield	1.5%
52 week high	Rs. 2,296
52 week low	Rs. 1,784
6m average volume (cr)	0.1
Beta	0.4
Face value	Rs. 1

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	72.1	72.1	72.1
FII's	15.8	15.9	15.5
MFs/Insti	7.8	7.9	8.3
Public	3.6	3.5	3.6
Others	0.7	0.6	0.6
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-5.0%	-3.4%	4.5%
Absolute Sensex	-1.0%	-1.0%	10.4%
Relative Return*	-4.0%	-2.4%	-5.9%

*over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	146,463	160,740	178,748
Growth (%)	19.0	9.7	11.2
EBITDA	39,506	41,943	46,257
EBITDA Margin (%)	27.0	26.1	25.9
Adj. PAT	31,472	33,287	38,099
Growth (%)	21.9	5.8	14.5
Adj. EPS	83.1	88.7	101.5
Growth (%)	23.8	6.8	14.5
P/E	24.1	23.0	20.1
P/B	8.5	8.1	6.6
EV/EBITDA	18.9	18.0	16.0
ROE (%)	35.2	35.5	32.9
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	38,977	36,854	5.8	38,172	2.1	77,149	71,115	8.5
EBITDA	10,225	10,278	<i>(0.5)</i>	10,037	<i>1.9</i>	20,262	19,349	4.7
EBITDA margins	26.2	27.9	(170bps)	26.3	(10bps)	26.3	27.2	(90bps)
Depreciation	864	507	70.4	817	5.8	1,681	1,000	68.1
EBIT	9,361	9,771	<i>(4.2)</i>	9,220	<i>1.5</i>	18,581	18,349	1.3
Interest	193	137	40.9	257	(24.9)	450	154	192.2
Other Income	1,361	730	86.4	1,675	(18.7)	3,036	1,955	55.3
Exceptional Items	-	-	<i>n.m.</i>	-	<i>n.m.</i>	-	-	<i>n.m.</i>
PBT	10,529	10,364	<i>1.6</i>	10,638	<i>(1.0)</i>	21,167	20,150	5.0
Tax	2,471	2,437	1.4	2,485	(0.6)	4,956	4,861	2.0
Share of profit from Associate	-	-	<i>n.m.</i>	-	<i>n.m.</i>	-	-	<i>n.m.</i>
Minority Interest	16	26	(38.5)	22	(27.3)	38	48	(20.8)
Reported PAT	8,042	7,901	<i>1.8</i>	8,131	<i>(1.1)</i>	16,173	15,241	6.1
Adjustments	-	-	<i>n.m.</i>	-	<i>n.m.</i>	-	-	<i>n.m.</i>
Adjusted PAT	8,042	7,901	<i>1.8</i>	8,131	<i>(1.1)</i>	16,173	15,241	6.1
No. of shares	375.3	382.7	(1.9)	375.2	-	375.3	382.7	(1.9)
EPS (Rs)	21.4	20.6	<i>3.8</i>	21.7	<i>(1.1)</i>	43.1	39.8	8.2

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	168,593	187,479	160,740	178,748	(4.7)	(4.7)
EBITDA	42,820	47,772	41,943	46,757	(2)	(2.1)
Margins (%)	25.4	25.5	26.1	26.2	70bps	70bps
Adj. PAT	36,840	40,952	33,287	38,099	(9.6)	(7.0)
EPS	98.2	109.1	88.7	101.5	(9.6)	(7.0)

PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	117,966	123,104	146,463	160,740	178,748
% change	8.6	4.4	19.0	9.7	11.2
EBITDA	32,311	32,516	39,506	41,943	46,757
% change	5.6	0.6	21.5	6.2	11.5
Depreciation	1,987	2,014	2,056	3,397	3,620
EBIT	30,324	30,502	37,450	38,546	43,137
Interest	32	52	198	776	709
Other Income	4,221	3,642	4,311	5,546	7,150
PBT	34,513	34,092	41,563	43,316	49,578
% change	9.0	(1.2)	21.9	4.2	14.5
Tax	8,156	8,212	10,001	9,963	11,403
Tax Rate (%)	23.6	24.1	24.1	23.0	23.0
Reported PAT	26,289	25,826	31,472	33,287	38,099
Adj*	-	-	-	-	-
Adj PAT	26,289	25,826	31,472	33,287	38,099
% change	8.2	(1.8)	21.9	5.8	14.5
No. of shares (cr)	394.1	384.9	379.0	375.3	375.3
Adj EPS (Rs)	66.7	67.1	83.1	88.7	101.5
% change	8.2	0.6	23.8	6.8	14.5
DPS (Rs)	11.8	12.5	30.0	77.0	42.6
CEPS (Rs)	71.8	72.3	88.5	97.8	111.2

CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	28,276	27,840	33,528	36,684	41,719
Non-cash adj.	(2,750)	(130)	(3,564)	(111)	(5,349)
Changes in W.C	(303)	(2,643)	(1,371)	(4,212)	(6,424)
C.F. Operation	25,223	25,067	28,593	32,361	29,946
Capital exp.	(1,953)	(1,804)	(1,954)	(3,504)	(7,150)
Change in inv.	(16,568)	2,058	1,091	-	-
Other invest.CF	1,789	2,632	2,459	(1,016)	(1,988)
C.F - Investment	(16,732)	2,886	1,596	(4,521)	(9,138)
Issue of equity	-	(16,000)	(16,000)	-	-
Issue/repay debt	87	(19)	(181)	-	-
Dividends paid	(10,973)	(10,760)	(11,472)	(28,911)	(16,002)
Other finance.CF	(140)	(106)	(244)	(4)	150
C.F - Finance	(11,026)	(26,885)	(27,897)	(28,915)	(15,852)
Chg. in cash	(2,535)	1,068	2,292	(1,074)	4,956
Closing cash	4,149	7,161	12,848	11,774	16,730

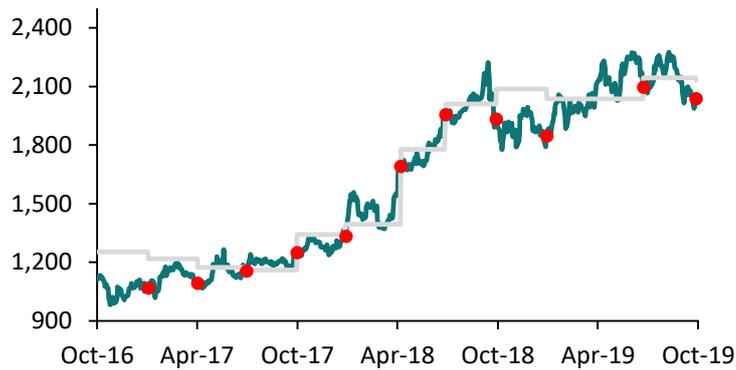
BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	4,149	7,161	12,848	11,774	16,730
Accounts Receivable	22,684	24,943	27,346	32,148	38,788
Inventories	21	26	10	7	6
Other Cur. Assets	53,672	49,094	51,927	52,882	59,289
Investments	344	301	239	239	239
Gross Fixed Assets	20,891	22,720	24,522	28,026	35,176
Net Fixed Assets	10,057	10,216	10,411	10,519	14,049
CWIP	1,541	1,278	963	963	963
Intangible Assets	1,644	1,757	1,879	2,530	2,999
Def. Tax (Net)	7,617	7,580	6,673	6,647	7,608
Other Assets	1,523	3,940	2,647	3,038	3,596
Total Assets	103,252	106,296	114,943	120,747	144,267
Current Liabilities	14,312	17,647	22,084	23,450	24,647
Provisions	39	26	-	-	-
Debt Funds	725	738	331	331	331
Other Liabilities	1,596	2,355	2,629	2,625	2,775
Equity Capital	197	191	375	375	375
Reserves & Surplus	86,017	84,937	89,071	93,447	115,544
Shareholder's Fund	86,214	85,128	89,446	93,822	115,919
Minority Interest	366	402	453	519	595
Total Liabilities	103,252	106,296	114,943	120,747	144,267
BVPS (Rs)	219	221	236	250	309

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	27.4	26.4	27.0	26.1	26.2
EBIT margin (%)	25.7	24.8	25.6	24.0	24.1
Net profit mgn.(%)	22.3	21.0	21.5	20.7	21.3
ROE (%)	30.5	30.3	35.2	35.5	32.9
ROCE (%)	34.7	35.4	41.5	40.7	36.9
W.C & Liquidity					
Receivables (days)	70.2	74.0	68.1	73.0	79.2
Inventory (days)	0.3	0.4	0.1	0.1	0.1
Payables (days)	95.4	86.5	86.9	89.3	82.8
Current ratio (x)	5.5	4.6	4.2	4.1	4.7
Quick ratio (x)	4.7	3.8	3.1	3.1	3.4
Turnover & Leverage					
Gross asset T.O (x)	5.9	5.6	6.2	6.1	5.7
Total asset T.O (x)	1.2	1.2	1.3	1.4	1.3
Int. covge. ratio (x)	947.6	586.6	189.1	49.7	60.8
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	4.0	4.4	5.1	4.7	4.2
EV/EBITDA (x)	14.7	16.7	18.9	18.0	16.0
P/E (x)	18.2	21.2	24.1	23.0	20.1
P/BV (x)	5.5	6.4	8.5	8.1	6.6

Recommendation Summary



Source: Bloomberg, Geojit research

Dates	Rating	Target
18-Oct-16	HOLD	1,253
20-Jan-17	HOLD	1,218
20-Apr-17	HOLD	1,173
18-Jul-17	HOLD	1,161
18-Oct-17	HOLD	1,342
15-Jan-18	HOLD	1,394
25-Apr-18	HOLD	1,779
16-Jul-18	HOLD	2,011
16-Oct-18	HOLD	2,087
16-Jan-19	HOLD	2,036
11-Jul-19	HOLD	2,144
16-Oct-19	HOLD	2,132

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

General Disclosures and Disclaimers

CERTIFICATION

I, Rajin Rajan P author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit, a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. GEOJIT is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. GEOJIT will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION: The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE: GEOJIT and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER: We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by GEOJIT without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

JURISDICTION: The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES: GEOJIT's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), GEOJIT affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

GEOJIT confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, GEOJIT or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company and is in receipt of compensation from the subject company." (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by GEOJIT regarding the compensation paid to its Research Analyst:

GEOJIT hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Rajin Rajan P, Research Analyst(s) of GEOJIT have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither GEOJIT/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226

